



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 19, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Exchange National Bank & Trust Co.
Charter Number 182**

**600 Commercial Street
Atchison, Kansas 66002**

Comptroller of the Currency

**Kansas City Field Office
7101 College Boulevard, Suite 1600
Overland Park, Kansas 66210**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: **Satisfactory**

The Community Development Test is rated: **Satisfactory**

We based the CRA rating on the following primary factors:

- Exchange National Bank & Trust Company's (Exchange) originated a majority of its loans within its assessment area (AA).
- Exchange's loan-to-deposit (LTD) ratio reflects reasonable responsiveness to the credit needs of the community.
- Lending activities represent reasonable penetration among individuals of different income levels.
- The overall geographic distribution of loans shows reasonable dispersion.
- Exchange's performance under the Community Development test is satisfactory and generally responsive to community development needs.

SCOPE OF EXAMINATION

We performed a full scope evaluation of Exchange's performance using intermediate small bank examination procedures. Our objectives were to assess the bank's ability to serve and meet the needs of the community within its AA. We based our analysis and conclusions on bank-provided data, which we verified during our review. Exchange's primary loan products are consumer loans based on number; and 1-4 family residential real estate (RRE) loans based on dollar volume. To evaluate performance, we selected a random sample of consumer and RRE loans originated from January 1, 2010 through December 31, 2011. We also reviewed the Home Mortgage Disclosure Act (HMDA) loan data for calendar years 2010 and 2011. The evaluation period for community development activities was from January 2008 to December 2012.

DESCRIPTION OF INSTITUTION

Exchange is a \$402 million community bank headquartered in Atchison, Kansas. The bank is a wholly owned subsidiary of Exchange Bankshares Corporation of Kansas, Atchison, Kansas. In addition to the main banking facility, Exchange has ten branch locations, three deposit-taking ATMs, and six non-depository ATMs within its AA. Since the last CRA examination, Exchange has acquired two branch locations, Rushville and Troy, which are located in Buchanan and Doniphan counties, respectively. The bank closed one branch location in Leavenworth due to its proximity to their Town Center branch in Lansing, Kansas.

The bank offers a full range of deposit and loan products and services. As of December 2012, Exchange reported net loans of \$251 million, equating to 62 percent of total assets. The loan portfolio is comprised primarily of RRE and consumer installment loans by dollar amount of loans outstanding. There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs of its AA.

Exchange received a "Satisfactory" CRA rating at the last examination dated March 31, 2008. Since that exam, the bank surpassed the asset-size threshold, which now requires us to consider

Exchange an intermediate small bank for CRA purposes. The increase in asset-size was attributed to the merger of First National Bank and Trust Company of Leavenworth and Exchange in June 2011. In addition to the merger, Exchange acquired two state banks, Rushville State Bank and Troy State Bank, in the second half of 2012.

DESCRIPTION OF ASSESSMENT AREAS

The bank has three AAs consisting of four counties located in Kansas and Missouri: Atchison, Buchanan, Doniphan, and Leavenworth Counties. The AAs consist of whole census tracts and do not arbitrarily exclude any low- or moderate-income areas. We labeled the AAs as follows:

- **Atchison AA:** Consists of four census tracts and encompasses all of Atchison County. This AA is not located in a MSA and consists of only middle-income designated tracts. Demographic data shows the 2011 median family income (MFI) is \$53,700 and approximately 8 percent of households are below the poverty level. Based on loan originations during the evaluation period, the primary products for the Atchison AA are consumer installment and RRE loans. Within the RRE loan category, the primary products are home purchase and refinance loans.
- **Buchanan/Doniphan AA:** Consists of 29 census tracts and encompasses all of Buchanan and Doniphan Counties. This AA is included in the St. Joseph, MO-KS Metropolitan Statistical Area (MSA), and consists of five moderate-income, eighteen middle-income, and six upper-income tracts. The Buchanan/ Doniphan AA is new to Exchange as a result of the acquisition of Rushville State Bank and Troy State Bank in the second half of 2012. This AA is not included in our evaluation as it was added after the end of an evaluation period.
- **Leavenworth AA:** Consists of 15 census tracts and encompasses all of Leavenworth County. This AA is included in the Kansas City, MO-KS MSA, and consists of one low-income, two moderate-income, nine middle-income, and three upper-income tracts. Demographic data shows the 2011 MFI is \$72,300, and approximately 7 percent of households are below the poverty level. The primary products for the Leavenworth AA are consumer installment and RRE loans.

We made three community contacts with local organizations during this examination. Our contacts stated bank involvement within the community is good. The contacts stated the primary credit needs of the respective areas are to offer or participate in affordable loan programs to enable home ownership by low- and moderate-income families, and to facilitate the growth and development of small businesses. The contact stated financial institutions in the area are meeting the needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The following conclusions represent performance in all AAs based on a review of reported loan information maintained during the evaluation period.

LOAN-TO-DEPOSIT RATIO

Exchange’s average quarterly LTD ratio reflects reasonable responsiveness towards meeting the credit needs of the community. Since the last CRA examination, the quarterly net LTD ratio averaged 81 percent for the past 20 quarters. This compares to a quarterly net LTD ratio for similarly situated banks of 85 percent. Exchange ranks fourth among five similarly situated banks serving its AA. The other four banks had quarterly average net LTD ratios ranging from 72 to 96 percent.

LENDING IN ASSESSMENT AREA

Exchange’s record of lending within its AA is good. A majority of all loans originated are located within the AA. For the loans sampled, the bank originated 79 percent by number and 77 percent by dollar volume within its AA. Refer to Table 1 for details.

Table 1 – Lending in Exchange’s AA										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Installment	43	86.00%	7	14.00%	50	\$378	77.94%	\$107	22.06%	\$485
1-4 Family RRE	145	77.13%	43	22.87%	188	\$15,974	77.04%	\$4,760	22.96%	\$20,734
Totals	188	78.99%	50	21.01%	238	\$16,352	77.06%	\$4,867	22.94%	\$21,219

Source: Loan sample and HMDA data.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reflects reasonable penetration among individuals of different income levels. To assess performance in the Atchison and Leavenworth AAs, we selected a sample of 43 consumer loans, 43 residential real estate loans, and all HMDA-reportable residential real estate loans in 2010 and 2011.

Home Loans – 1-4 Family Residential Real Estate

Atchison AA: The distribution of residential home loans to low- and moderate-income borrowers is reasonable. Lending to low-income families is satisfactory considering 7.86 percent of the families in the AA are below the poverty level. Lending to moderate-income borrowers is below demographics. Refer to Table 2A for details.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Atchison AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
1-4 Family RRE	18.96%	11.63%	19.57%	16.28%	28.22%	27.91%	33.26%	44.19%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Leavenworth AA: The distribution of residential home loans to low- and moderate-income borrowers is reasonable. Our review indicates 5 percent of residential home loan customers are low-income, which remains below AA demographics, given the poverty level in the AA. Lending to moderate-income borrowers is slightly below demographics. Refer to Table 2B for detail.

Table 2B - Borrower Distribution of Residential Real Estate Loans in Leavenworth AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
1-4 Family RRE	16.57%	4.76%	19.87%	19.04%	25.92%	19.04%	37.65%	57.14%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Consumer Loans

Atchison AA: The distribution of consumer loans to low- and moderate-income borrowers is excellent. The percentage of loans to these borrowers significantly exceeds demographics. Refer to Table 3A for details.

Table 3A - Borrower Distribution of Consumer Loans in Atchison AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Installment	22.58%	36.84%	16.22%	31.58%	22.20%	15.79%	39.00%	15.79%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Leavenworth AA: The distribution of consumer loans to low- and moderate-income borrowers is excellent. The percentage of loans to these borrowers significantly exceeds demographics. Refer to Table 3B for details.

Table 3B - Borrower Distribution of Consumer Loans in Leavenworth AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Installment	22.42%	37.50%	20.04%	25.00%	22.43%	20.83%	35.11%	16.67%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the geographic distribution of loans within the AAs indicates a reasonable dispersion of loans in low- and moderate-income areas.

Atchison AA: An analysis of the geographic distribution of loans is not applicable. There are no low-or moderate-income census tracts in the AA.

Leavenworth AA: The Leavenworth AA includes one low-income tract and two moderate-income tracts. Exchange demonstrates reasonable dispersion of 1-4 family residential home loans to the low- and moderate-income census tracts in the AA. While no loans in the AA were in the low income level census tract, owner-occupied housing in the low income level census tract makes up only 1.64 percent of the AA’s total owner-occupied housing. Refer to Table 4A for details.

Table 4A - Geographic Distribution of Residential Real Estate Loans in Leavenworth AA								
Census Tract Income Level	Low Tract		Moderate Tract		Middle Tract		Upper Tract	
Loan Type	% Owner Occupied Housing	% of # Bank Loans	% Owner Occupied Housing	% of # Bank Loans	% Owner Occupied Housing	% of # Bank Loans	% Owner Occupied Housing	% of # Bank Loans
1-4 Family RRE	1.64%	0.00%	10.39%	9.52%	57.68%	66.67%	30.29%	23.81%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

Exchange exhibited excellent dispersion of consumer lending in the low- and moderate-income census tracts in the Leavenworth AA. Table 4B reflects performance based on our loan sample.

Table 4B - Geographic Distribution of Consumer Loans in Leavenworth AA								
Census Tract Income Level	Low Tract		Moderate Tract		Middle Tract		Upper Tract	
Loan Type	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans
Consumer Installment	22.42%	34.48%	20.04%	27.59%	22.43%	17.24%	35.11%	20.69%

Source: 2000 Census Demographic Data; Bank and examiner generated reports

RESPONSES TO COMPLAINTS

Exchange has not received any complaints during this evaluation period directly related to CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. § 25.28(c), or 12 C.F.R. § 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

COMMUNITY DEVELOPMENT TEST

Exchange's community development performance is satisfactory. Bank management has adequately responded to the community's needs through community development activities including community development loans and investments that benefit low- and moderate-income families and geographies.

Number and Amount of CD Loans

Exchange generated a total of \$15 million in community development (CD) loans. The bank generated twenty-two CD loans that support permanent job creation for low- and moderate-income (LMI) persons or in LMI geographies. These loans allowed for many new LMI positions in both Atchison and Leavenworth AAs. Exchange also generated one CD loan for \$22 thousand that provides shelter for battered women.

The bank granted nine CD loans for \$608 thousand through the Kansas Housing Resource Corporation, which assists LMI and first time homebuyers with the purchase of a primary residence. In addition, Exchange made four Federal Housing Administration and two Veteran's Administration loans totaling \$606 thousand.

Number and Amount of Qualified Investments

Exchange reported no direct qualifying CD investment securities; however, the bank has five qualifying donations totaling \$8 thousand during the evaluation period. While many of the donations are not qualified investments, Exchange continues to donate to various community and non-profit organizations, with \$150 thousand donated in 2011 and 2012.

Extent to Which the Bank Provides CD Services

Exchange has eleven total branches in the Atchison and Leavenworth AAs. Eighteen percent of the branches are in low- and moderate-income tracts; however, only 15 percent of the population is in these areas. The bank has two branch locations in low-income tracts.